

Message Text

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PAGE 01 BERN 00223 01 OF 02 161610Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-06 CEA-01 L-03 H-02 PA-02 PRS-01 /116 W
-----022772 161635Z /45

R 161520Z JAN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5580
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 0223

PASS TREAS AND FRB

USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JAN 8-14, 1978

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC DECLINED
TO SF 1.97 IN LARGE ABRUPT MOVEMENTS, EVIDENTLY
DUE SKEPTICISM ABOUT DEGREE US COMMITMENT SUPPORT
DOLLAR. STATEMENTS MADE BY SWISS NATIONAL BANK
(SNB) AND FEDERAL COUNCIL INTENDED SUPPORT DOLLAR.
GOLD PRICE CLOSED FRIDAY AT \$172 PER OUNCE.
HIGH CAPITAL MARKET LIQUIDITY EXERTED DOWNWARD
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PAGE 02 BERN 00223 01 OF 02 161610Z

PRESSURE ON INTEREST RATES. END SUMMARY.

2. FOREIGN EXCHANGE: (A) DOLLAR RATE ROSE MONDAY TO
SF 2.04 IN REACTION TO OPTIMISM US WOULD SUPPORT
DOLLAR, HIGHER US DISCOUNT RATE, REPORTS IMPROVED US
ECONOMIC OUTLOOK. RATE DECLINED AS OPTIMISM GAVE
WAY TO CONFUSION ABOUT US SUPPORT AND DEGREE OF

COOPERATION REACHED AT BASEL CENTRAL BANKERS' MEETING. DOLLAR RATE FELL ABRUPTLY WED, AND DURING THURS TO SF 1.92 FOLLOWING REPORT SAUDI ARABIA MIGHT REPLACE DOLLAR FOR OIL SALES. DEALERS FELT US TREAS SECY'S RELUCTANCE TO SET DOLLAR FLOOR RATES AND HIS STATEMENT WED THAT US WOULD INTERVENE ONLY TO RESTORE ORDERLY MARKET SHOWED US NOT FULLY COMMITTED SUPPORT DOLLAR. CONTINUED MARKET INSTABILITY PREDICTED.

(B) SOME DEALERS WOUNDERED WHETHER \$2 BILLION SWAP WITH BUNDESBANK WAS NEW AMOUNT OR USE OF EXISTING \$20 BILLION US SWAP NETWORK WHICH REPORTEDLY INCLUDES \$2 BILLION IN DM WITH BUNDESBANK, \$1.4 BILLION IN SF WITH SNB AND \$600 MILLION IN SF WITH BANK FOR INTERNATIONAL SETTLEMENTS. HOWEVER, DEALERS NOTED U S SUPPORTED DOLLAR AGAINST DM WEDNESDAY, SAID SNB SUPPORTED DOLLAR AT SF 1.93 THUR AND DOLLAR ROSE TO SF 97.5 FRIDAY AFTER COORDINATED CENTRAL BANK SUPPORT, INCLUDING US FED. FORWARD DOLLAR DISCOUNT RATES ROSE AS DIFFERENTIAL BETWEEN SWISS AND US INTEREST RATES INCREASED. RATES FOLLOW:

ITEM - 1/8 (OPEN) - 1/13 (CLOSE)
SPOT DOLLAR - 2,0125 - 1.9750
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH - 6.77 - 7.15
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PAGE 03 BERN 00223 01 OF 02 161610Z

TWO MONTHS - 6.09 - 6.64
THREE MONTHS - 5.86 - 6.46
SIX MONTHS - 5.74 - 6.26
TWELVE MONTHS - 5.32 - 5.48
SF/DM - 93.93 - 93.13
GOLD - 169 - 172.25

3. GOLD: PRICE CONTINUED TO REACT STRONGLY AND INVERSELY TO DOLLAR EXCHANGE RATE MOVEMENTS AGAINST SF AND OTHER STRONG CURRENCIES. PRICE REACHED \$174.75 PER OUNCE THURSDAY, HIGHEST SINCE EARLY 1975. TRADITIONAL GOLD INVESTORS BECAME HESITANT FRIDAY BECAUSE OF UNERTAINTY ABOUT DOLLAR TREND. DEALERS EXPECT UNCERTAINTY TO PREVAIL SO LONG AS DOLLAR FLUCTUATES AROUND SF 2. SAID PRICE WOULD FALL BELOW 170 IF DOLLAR SHOWED CLEAR UPWARD TREND. SOURCE CLOSE TO SNB SAID RENEWAL IMF AGREEMENT TO PLACE CEILING ON OFFICIAL GOLD RESERVES COULD NOT BE RULED OUT.

4. OFFICIAL STATEMENTS: (A) SNB PRES LEUTWILER WED STRESSED REAL PROGRESS MADE AT BASEL CENTRAL

BANKERS' MEETING IN HARMONIOUS ATMOSPHERE. SAID US

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PAGE 01 BERN 00223 02 OF 02 161620Z
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UNCLAS SECTION 2 OF 2 BERN 0223

PASS TREAS AND FRB

USMTN ALSO FOR MISSION

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DELEGATION LED BY BURNS DEMONSTRATED US
DETERMINATION NOT TO ALLOW DOLLAR WEAKER FURTHER.
SAID DOLLAR DECLINE IS WITHOUT BASIS. NOTED BIS
SAID US ECONOMIC OUTLOOK BETTER THAN FOR STRONG
CURRENCY COUNTRIES WHOSE GROWTH OUTLOOK SHOULD BE
REVISED DOWNWARD. (B) SNB GEN MGR LANGUETIN
DENIED RUMORS US, EUROPEANS DISAGREED AT BASEL ON
MEANS STABILIZE DOLLAR. STRESSED US CONSIDERING
EXPANSION SWAP ARRANGEMENTS BEYOND THAT WITH BUNDESBANK.
DOLLAR RATE SHOULD TURN AROUND FOLLOWING US COMMITMENTS
MADE AT BASEL. US TRADE DEFICIT SHOULD NOT BE
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PAGE 02 BERN 00223 02 OF 02 161620Z

OVER-EMPHASIZED; US ECONOMY SHOWING MOST DYNAMIC RECOVERY OF INDUSTRIAL COUNTRIES.

(C) FEDERAL COUNCIL WED EXPRESSED CONVICTION US NOW COMMITTED SUPPORT DOLLAR: CRITICIZED PREVIOUS US EXCHANGE RATE POLICY. SAID SNB BOUGHT FOREX EQUIVALENT SF 15.5 BILLION IN 1977 OFFSET BY SF 11.5 BILLION CAPITAL EXPORT CONVERSIONS. SNB'S INTERVENTIONS INCREASED IN SECOND HALF 1977 WHEN PRESSURE GREW ON DOLLAR. SNB WILL CONTINUE FOREX PURCHASES TO SMOOTH ERRATIC FLUCTUATIONS BUT WITHOUT ENDANGERING PRICE STABILITY THROUGH CREATION EXCESS NEW MONEY.

(D) SWISS HOTEL ASSN CALLED FOR SNB TO GUARANTEE EXCHANGE RATE FOR ADVANCE HOTEL BOOKINGS TO COUNTER LARGE AND ABRUPT EXCHANGE RATE MOVEMENTS. HOTEL OPERATORS SAID FOREIGN TOUR OPERATORS NOW HESITATE MAKE CONTRACTS IN SF AND CANCELLATIONS HAVE INCREASED.

5. CAPITAL AND MONEY MARKET: (A) LIQUIDITY WAS HIGH THOUGH SF 8 BILLION IN SNB YEAR-END SWAP AND CREDIT ARRANGEMENTS WITH BANKS ENDED. SNB FOREX HOLDINGS FELL SF 1,789 MILLION, GRIO ACCOUNTS DOWN SF 3,254 MILLION AND NOTES IN CIRCULATION DROPPED SF 727 MILLION. MONEY SUPPLY (M1) GROWTH IN 1977 SAID TO HAVE EXCEEDED SNB TARGET OF 5 PERCENT BECAUSE OF SNB FOREX MARKET INTERVENTIONS. SNB IS EXPECTED TO REDUCE LIQUIDITY, PERHAPS WITH MINIMUM RESERVE REQUIREMENTS, WHICH MIGHT EVENTUALLY CAUSE INTEREST RATES RISE IN FIRST HALF 1978.

(B) STOCKS ACTIVE UNDER INFLUENCE DECLINING US SHARE PRICES AND FOREX MARKET UNCERTAINTIES. UNCLASSIFIED

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PAGE 03 BERN 00223 02 OF 02 161620Z

HOWEVER, PANIC BUYING OF FIRST WEEK JAN GAVE WAY TO SELECTIVE PURCHASE; PRICES SOME LEADING SHARES DECLINED. SKA SHARE INDEX SLIPPED TO 245 JAN 13. DEALERS OPTIMISTIC BUYER INTEREST WILL REMAIN STRONG IN VIEW MONEY MARKET LIQUIDITY. BROKERS URGED INVESTORS NOT OVER-ESTIMATE IMPACT OF EXCHANGE RATE ON COMPETITIVENESS SWISS FIRMS; EFFECT DIFFERS FIRM TO FIRM. SWISS SHARES DEEMED BEST INVESTMENT RISK BECAUSE OF HIGH SWISS POLITICAL AND ECONOMIC STABILITY.

(C) YIELD ON FIRST CLASS DOMESTIC LOAN ISSUES HAS BEEN 3.75 PERCENT SINCE FIRST WEEK JAN. FOREIGN

BORROWERS OFFERING 4.25 PERCENT ON 15 YEAR ISSUES, BUT
7 AND 8 YEAR LOANS CARRY 3.75 PERCENT. RECENT SF 130
MILLION CITICORP ISSUE AT 4.25 PERCENT HAS BEEN SOLD
AT 106 PERCENT PAR, EFFECTIVE YIELD DOWN TO 3.7.
AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO 3.75
JAN 13, PRIMARILY BECAUSE OF REDUCED NUMBER OF OUTSTANDING ISSUES.

(D) SOME 50 LOAN REPAYMENTS (FOREIGN AND DOMESTIC)
ARE EXPECTED DURING FIRST QTR 1978 TO REFINANCE AT
LOWER INTEREST RATES, SAVING AVERAGE 3 PERCENT INTEREST
BUT LEAVING NEW CAPITAL NEEDS AT SF 1.3 BILLION, FAR
BELOW INVESTORS' DESIRES. JAN CALENDAR SCHEDULES
17 LOAN ISSUES, SF 613 MILLION IN CONVERSIONS, SF
437 MILLION IN NEW LOANS.

(E) ZURICH STOCK EXCHANGE PRES RAHN TOLD PRESS
US SHARES GOOD BUY BECAUSE UNDER-VALUED; EXCHANGE
RATE GIVES SWISS ADDITIONAL PRICE ADVANTAGE.
RAHN ADVISED INVESTORS WITH 10 TO 20 PERCENT THEIR
PORTFOLIOS IN DOLLAR INVESTMENTS MAINTAIN HOLDINGS;
SAID EXCHANGE RATE LOSS REPRESENTS COST OF SPREADING
RISK. RAHN ADVISED INVESTORS HAVING ONLY DOLLAR
HOLDINGS TO DIVERSIFY INTO DM OR STERLING OVER SHORT
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PAGE 04 BERN 00223 02 OF 02 161620Z

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Message Attributes

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